Home Office

AUTHORITY: The Secretary of State for the Home Department

# Volume 3

# Schedule Q - Financial Reports And Audit Rights

# Travel Services

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## 1 DEFINITIONS

In this Schedule, the following definitions shall apply:

| | |
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| **"Annual Contract Report"** | the annual contract report to be provided by the Service Provider to the Authority pursuant to Paragraph 1 of Part B; |
| **"Audit Agents"** | (a) the Authority's internal and external auditors;<br>(b) the Authority's statutory or regulatory auditors;<br>(c) the Comptroller and Auditor General, their staff and/or any appointed representatives of the National Audit Office;<br>(d) HM Treasury or the Cabinet Office;<br>(e) any party formally appointed by the Authority to carry out audit or similar review functions; and<br>(f) successors or assigns of any of the above; |
| **"Contract Amendment Report"** | the contract amendment report to be provided by the Service Provider to the Authority pursuant to Paragraph 1 of Part B; |
| **"Contract Inception Report"** | the contract amendment report to be provided by the Service Provider to the Authority pursuant to Paragraph 1 of Part B |
| **"Final Reconciliation Report";** | the final reconciliation report to be provided by the Service Provider to the Authority pursuant to Paragraph 1 of Part B; |
| **"Financial Model"** | the Contract Inception Report, the latest Annual Contract Report or the latest Contract Amendment Report, whichever has been most recently approved by the Authority in accordance with Paragraph 2 of Part B; |
| **"Financial Reports"** | the Contract Inception Report and the reports listed in the table in Paragraph 1.1 of Part B; |
| **"Financial Representative"** | a reasonably skilled and experienced member of the Service Provider's Staff who has specific responsibility for preparing, maintaining, facilitating access to, discussing and explaining the Open Book Data and Financial Reports; |
| **"Financial Transparency Objectives"** | has the meaning given in Paragraph 1 of Part A; |

**"Material Change"** a Change which:

(a) materially changes the profile of the Charges; or

(b) varies the total Charges payable during the Term (as forecast in the latest Financial Model) by 5% or more

**"Open Book Data"** complete and accurate financial and non-financial information which is sufficient to enable the Authority to verify the Charges already paid or payable and Charges forecast to be paid during the remainder of the Term, including details and all assumptions relating to:

(a) the Supplier's Costs broken down against each Service and/or Deliverable, including all mobilisation costs actual capital expenditure (including capital replacement costs) and the unit cost and total actual costs of all hardware and software;

(b) operating expenditure relating to the provision of the Services including an analysis showing:

(i) the unit costs and quantity of consumables and bought-in services;

(ii) manpower resources broken down into the number and grade/role of all Service Provider Personnel (free of any contingency) together with a list of agreed rates against each manpower grade;

(iii) a list of Costs underpinning those rates for each manpower grade, being the agreed rate less the Supplier's Profit Margin; and

(iv) Reimbursable Expenses;

(c) Overheads;

(d) all interest, expenses and any other third party financing costs incurred in relation to the provision of the Services;

(e) the Service Provider Profit achieved over the Term and on an annual basis;

(f) confirmation that all methods of Cost apportionment and Overhead allocation are consistent with and not more onerous than such methods applied generally by the Supplier;

(g) an explanation of the type and value of risk and contingencies associated with the provision of the Services, including the amount of money attributed to each risk and/or contingency; and

(h) the actual Costs profile for each Service Period.

## PART A

## Financial Transparency Objectives and Open Book Data

### 1 FINANCIAL TRANSPARENCY OBJECTIVES

The Service Provider acknowledges that the provisions of this Schedule are designed (inter alia) to facilitate, and the Service Provider shall co-operate with the Authority in order to achieve, the following objectives:

**Understanding the Charges**

(a) for the Authority to understand any payment sought from it by the Service Provider including an analysis of the Costs, Overhead recoveries (where relevant), time spent by Service Provider Personnel in providing the Services and the Service Provider Profit Margin;

(b) for both Parties to be able to understand the Financial Model and Cost forecasts and to have confidence that these are based on justifiable numbers and appropriate forecasting techniques;

**Agreeing the impact of Change**

(c) for both Parties to agree the quantitative impact of any Changes that affect ongoing costs and to identify how these could be mitigated and/or reflected in the Supplier's Charges;

(d) for both Parties to be able to review, address issues with and re-forecast progress in relation to the provision of the Services;

Continuous Improvement

(e) for the Parties to challenge each other with ideas for efficiency and improvements; and

(f) to enable the Authority to demonstrate that it is achieving value for money for the tax payer relative to current market prices

(together the **"Financial Transparency Objectives").**

### 2 OPEN BOOK DATA

2.1 The Service Provider acknowledges the importance to the Authority of the Financial Transparency Objectives and the Authority's need for complete transparency in the way in which the Charges are calculated.

2.2 During the Term, and for a period of 7 years following the end of the Term, the Service Provider shall:

(a) maintain and retain the Open Book Data; and

(b) disclose and allow the Authority and/or the Audit Agents access to the Open Book Data.

## PART B

## Financial Reports

### 1 PROVISION OF THE FINANCIAL REPORTS

1.1 The Service Provider shall provide

(A) the Contract Inception Report on or before the Commencement Date; and

(B) during the Term the following financial reports to the Authority, in the frequency specified below:

| Financial Report | When to be provided |
|---|---|
| **Contract Inception Report** | On or before the Commencement Date.<br>This will show how the charges are built up from costs and profit. It should also be used as a basis for the design of the other reports listed here. |
| **Contract Amendment Report** | Within 1 month of a Material Change being agreed between the Service Provider and the Authority.<br>This will show how the charges are built up from costs and profit and the variation of the charges due to agreed changes. |
| **Quarterly Contract Report** | Within 1 month of the end of each Quarter.<br>This will show the actual costs and profit incurred to date and the forecast costs and profit for the remainder of the Term. |
| **Annual Contract Report** | Within 1 month of the end of the Contract Year to which that report relates.<br>This will show the actual costs and profit incurred to date and the forecast costs and profit for the remainder of the Term. |
| **Final Reconciliation Report** | Within 6 months after the end of the Term.<br>This will show the actual costs and profit incurred for the full Term under this agreement. |

1.2 The Service Provider shall provide to the Authority the Financial Reports in the same software package (Microsoft Excel or Microsoft Word), layout and format as the Financial Pricing Model issued by the Authority to the Service Provider in Volume 5 of the ITT documentation. The Authority shall be entitled to modify the template for any Financial Report by giving written notice to the Supplier, including a copy of the updated template.

1.3 A copy of each Financial Report shall be held by both the Authority and the Supplier. If there is a Dispute regarding a Financial Report, the Authority's copy of the relevant Financial Report shall be authoritative.

1.4 Each Financial Report shall:

(a) be completed by the Service Provider using reasonable skill and care;

(b) incorporate and use the same defined terms as are used in this Agreement;

(c) quote all monetary values in pounds sterling;

(d) quote all Costs as exclusive of any VAT; and

(e) quote all Costs and Charges based on current prices.

1.5 Each Annual Contract Report and the Final Reconciliation Report shall be certified by the Service Provider Chief Financial Officer or Director of Finance (or equivalent as agreed in writing by the Authority in advance of issue of the relevant Financial Report), acting with express authority, as:

(a) being accurate and not misleading;

(b) having been prepared in conformity with generally accepted accounting principles within the United Kingdom;

(c) being a true and fair reflection of the information included within the Supplier's management and statutory accounts; and

(d) compliant with the requirements of Paragraph 1.6.

1.6 The Service Provider shall:

(a) prepare each Financial Report using the same methodology as that used for the Contract Inception Report;

(b) ensure that each Annual Contract Report and each Contract Amendment Report (if any) is a true and fair reflection of the Costs and Service Provider Profit Margin forecast by the Supplier;

(c) the Final Reconciliation Report is a true and fair reflection of the Costs; and

(d) not have any other internal financial model in relation to the Services inconsistent with the Financial Model.

1.7 During the Contract Term, and for a period of 18 months following the end of the Contract Term, the Service Provider shall make available the Financial Representative at reasonable times and on reasonable notice to answer any queries that the Authority may have on any of the Financial Reports and/or Open Book Data.

1.8 If the Service Provider becomes aware of the occurrence, or the likelihood of the future occurrence, of an event which will or may have a material effect on the following:

(a) the Costs incurred (or those forecast to be incurred) by the Supplier; and/or

(b) the forecast Charges for the remainder of the Term,

the Service Provider shall, as soon as practicable, notify the Authority in writing of the event in question detailing the actual or anticipated effect. For the avoidance of doubt, notifications provided in accordance with this Paragraph 1.8 shall not have the effect of amending any provisions of this Agreement.

## 2 FINANCIAL MODEL

2.1 Following the delivery by the Service Provider of each Annual Contract Report and any Contract Amendment Report:

(a) the Parties shall meet to discuss its contents within 10 Working Days of receipt (or such other period as the Parties shall agree). The Financial Representative shall attend the meeting;

(b) the Service Provider shall make appropriate Service Provider Personnel and advisers available to discuss any variations between the relevant Financial Report and the Contract Inception Report or immediately preceding Annual Contract Report or Contract Amendment Report (as the case may be) and to explain such variations (with reference to supporting evidence) to the satisfaction of the Authority; and

(c) the Authority shall either within 10 Working Days of the meeting referred to in Paragraph 2.1(a) notify the Service Provider that:

(i) the relevant Financial Report contains errors or omissions or that further explanations or supporting information is required, in which event the Service Provider shall make any necessary modifications to the Financial Report and/or supply the Authority with such supporting evidence as is required to address the Authority's concerns within 10 Working Days of such notification and the Authority shall following receipt of such amended Financial Report and/or supporting information, approve or reject such Financial Report; or

(ii) the Authority has approved the relevant Financial Report.

2.2 Following approval by the Authority of the relevant Financial Report in accordance with Paragraph 2.1(c), that version shall become, with effect from the date of such approval, the current approved version of the Financial Model for the purposes of this Agreement, a version of which shall be held by both the Authority and the Supplier. If there is a Dispute regarding a Financial Report, the Authority's copy of the relevant Financial Report shall be authoritative.

2.3 If the Parties are unable to reach agreement on any Financial Report within 30 Working Days of its receipt by the Authority, the matter shall be referred for determination in accordance with Schedule L (*Dispute Resolution Procedure*).

## 3 DISCUSSION OF QUARTERLY CONTRACT REPORTS AND FINAL RECONCILIATION REPORT

3.1 Following the delivery by the Service Provider of each Quarterly Contract Report, the Parties shall meet to discuss its contents within 10 Working Days of receipt (or such other period as the Parties shall agree). The Financial Representative shall attend the meeting.

3.2 Following the delivery by the Service Provider of the Final Reconciliation Report, the Parties shall meet to discuss its contents within 10 Working Days of receipt (or such other period as the Parties shall agree). The Financial Representative shall attend the meeting.

## 4 KEY SUB-CONTRACTORS

4.1 The Service Provider shall, if requested by the Authority, provide (or procure the provision of) a report or reports including the level of information set out in the Financial Reports in relation to the costs and expenses to be incurred by any of its Key Sub-contractors.

4.2 Without prejudice to Paragraph 1.1 of Part C, the Service Provider shall:

(a) be responsible for auditing the financial models/reports of its Key Sub-contractors and for any associated costs and expenses incurred or forecast to be incurred; and

(b) on written request by the Authority, provide the Authority or procure that the Authority is provided with:

(i) full copies of audit reports for the Key Sub-contractors. The Authority shall be entitled to rely on such audit reports; and

(ii) further explanation of and supporting information in relation to, any audit reports provided.

## PART C

## Audit Rights

### 1 AUDIT RIGHTS

1.1 The Authority, acting by itself or through its Audit Agents, shall have the right during the Term and for a period of 18 months thereafter, to assess compliance by the Service Provider and/or its Key Sub-contractors of the Supplier's obligations under this Agreement, including for the following purposes:

(a) to review the Service Provider's compliance with its obligations under Clauses 13 (*Conduct of the Services*) and 18 (*Monitoring, Inspection and Access*);

(b) to review any records created during the design and development of the Service Provider's System and pre-operational environment such as information relating to acceptance testing;

(a) to ensure that the Service Provider is complying with the Standards;

(b) to verify the integrity and content of any Financial Report;

(c) to verify the accuracy of the Operating Fee and any other amounts payable by the Authority under this Agreement (and proposed or actual variations to such Charges and payments);

(d) to verify the Costs (including the amounts paid to all Sub-contractors and any third party suppliers);

(e) to verify the Certificate of Costs and/or the Open Book Data;

(f) to verify the Service Provider's and each Key Sub-contractor's compliance with this Agreement and applicable Law;

(g) to identify or investigate actual or suspected fraud, impropriety or accounting mistakes or any breach or threatened breach of security and in these circumstances the Authority shall have no obligation to inform the Service Provider of the purpose or objective of its investigations;

(h) to identify or investigate any circumstances which may impact upon the financial stability of the Service Provider , the Guarantor and/or any Key Sub-contractors or their ability to perform the Services;

(i) to obtain such information as is necessary to fulfil the Authority's obligations to supply information for parliamentary, ministerial, judicial or administrative purposes including the supply of information to the Comptroller and Auditor General;

(j) to review any books of account and the internal contract management accounts kept by the Service Provider in connection with this Agreement;

(k) to carry out the Authority's internal and statutory audits and to prepare, examine and/or certify the Authority's annual and interim reports and accounts;

(l) to enable the National Audit Office to carry out an examination pursuant to Section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which the Authority has used its resources;

(m) to verify the accuracy and completeness of any Management Information delivered or required by this Agreement;

(n) to review any Performance Monitoring Reports and/or other records relating to the Service Provider 's performance of the Services and to verify that these reflect the Supplier's own internal reports and records;

(o) to review the Service Provider's quality management systems (including all relevant Quality Plans and any quality manuals and procedures);

(p) to review the Service Provider's compliance with the Standards;

(q) to inspect the Authority Assets, including the Authority's IPRs, equipment and facilities, for the purposes of ensuring that the Authority Assets are secure and that any register of assets is up to date;

(r) to review the Service Provider's compliance with the Data Protection Act, the Freedom of Information Act 2000 in accordance with Clauses 51 (*Data Protection*) and 39 (*Confidential Information, Use of Documents and Freedom of Information*) of the Contract and any other legislation applicable to the Services;

(s) to inspect the ICT Environment (or any part of it); and/or

(t) to review the integrity, confidentiality and security of the Authority Data; and/or

**(u)** any other audit that may be required by any Regulatory Body.

1.2 Except where an audit is imposed on the Authority by a regulatory body or where the Authority has reasonable grounds for believing that the Service Provider has not complied with its obligations under this Agreement, the Authority may not conduct an audit of the Service Provider or of the same Key Sub-contractor more than twice in any Contract Year.

1.3 Nothing in this Agreement shall prevent or restrict the rights of the Comptroller and/or Auditor General and/or their representatives from carrying out an audit, examination or investigation of the Service Provider and/or any of the Key Sub-contractors for the purposes of and pursuant to applicable Law.

## 2 CONDUCT OF AUDITS

2.1 The Authority shall during each audit comply with those security, sites, systems and facilities operating procedures of the Service Provider that the Authority deems reasonable and use its reasonable endeavours to ensure that the conduct of each audit does not unreasonably disrupt the Service Provider or delay the provision of the Services.

2.2 Subject to the Authority's obligations of confidentiality, the Service Provider shall on demand provide the Authority and the Audit Agents with all reasonable co-operation and assistance (and shall procure such co-operation and assistance from its Sub-contractors) in relation to each audit, including:

(a) all information requested by the Authority within the permitted scope of the audit;

(b) reasonable access to any Sites and to any equipment used (whether exclusively or non-exclusively) in the performance of the Services;

(c) access to the Service Provider System; and

(d) access to Service Provider staff .

2.3 The Service Provider shall implement all measurement and monitoring tools and procedures necessary to measure and report on the Service Provider's performance of the Services against the applicable Performance Indicators at a level of detail sufficient to verify compliance with the Performance Indicators.

2.4 The Authority shall endeavour to (but is not obliged to) provide at least 15 days' notice of its intention to conduct an audit.

2.5 The Parties agree that they shall bear their own respective costs and expenses incurred in respect of compliance with their obligations under this Paragraph 2, unless the audit identifies a material Default by the Service Provider in which case the Service Provider shall reimburse the Authority for all the Authority's reasonable costs incurred in connection with the audit.

## 3 USE OF SUPPLIER'S INTERNAL AUDIT TEAM

3.1 As an alternative to the Authority's right pursuant to Paragraph 1.1 to exercise an audit either itself or through its Audit Agents, the Authority may require in writing that an audit is undertaken by the Supplier's own internal audit function for any of the purposes set out in Paragraph 1.1.

3.2 Following the receipt of a request from the Authority under Paragraph 3.1 above, the Service Provider shall procure that the relevant audit is undertaken as soon as reasonably practicable and that the Authority has unfettered access to:

(a) the resultant audit reports; and

(b) all relevant members of the Service Provider's internal audit team for the purpose of understanding such audit reports.

## 4 RESPONSE TO AUDITS

4.1 If an audit undertaken pursuant to Paragraphs 1 or 3 identifies that:

(a) the Service Provider has committed a Default, the Authority may (without prejudice to any rights and remedies the Authority may have) require the Service Provider to correct such Default as soon as reasonably practicable and, if such Default constitutes a notifiabledefault, to comply with the Rectification Plan Process;

(b) there is an error in a Financial Report, the Service Provider shall promptly rectify the error;

(c) the Authority has overpaid any Charges, the Service Provider shall pay to the Authority:

(i) the amount overpaid;

(ii) interest on the amount overpaid at the applicable rate under the Late Payment of Commercial Debts (Interest) Act 1998, accruing on a daily basis from the date of overpayment by the Authority up to the date of repayment by the Service Provider; and

(iii) the reasonable costs incurred by the Authority in undertaking the audit,

the Authority may exercise its right to deduct such amount from the Charges if it prefers; and

(d) the Authority has underpaid any Charges, the Service Provider shall not be entitled to increase the Charges paid or payable by the Authority